



New cost model is good business; Videoconferencing helps reduce travel and associated costs; Expanded indirect work scope affects cost reduction; Enterprise planning moves plant forward

Cost Management

NEW COST MODEL TO STREAMLINE BUSINESS PROCESS

Y-12 is making sweeping changes to the current cost model, which was originally designed in 1998. The planned changes, designed by Financial Management, in collaboration with Planning and Integration, will streamline the business process at Y-12, bringing it more in line with NNSA reporting structures and complementing the comprehensive baseline planning system that Y-12 has established.

The cost model changes will consolidate indirect overhead pools, eliminate multiple distribution bases and integrate the Y-12 infrastructure into one program. Expected benefits include

- improved infrastructure prioritization,
- integrated functional budgeting,
- simplified planning and estimating and
- enhanced cost-control tools.

Y-12 submitted its FY 2006 budget to NNSA in the new cost model format, which resulted in a significant movement of funds between NNSA reporting structures.

A modified implementation took place on Oct. 1, 2004,

and achieved approximately 60% of the desired changes, yet stayed within the FY 2005 budget developed under the current cost model.

A PICTURE IS WORTH A THOUSAND MILES

A Y-12 Six Sigma Yellow Belt project has identified



Reducing Travel FY 2000–2003

	2000	2001	2002	2003
Cost (\$ in Millions)	5.1	4.8	4.2	4.2
Number of Trips	4790	4237	3617	3314

Videoconferencing saves money and increases productivity by reducing the cost and time lost to travel.

\$770,000 in cost avoidance for FY 2004 from implementing high-tech videoconferencing capabilities.

In recent years, industry advances have made videoconferencing an effective substitute for business travel and a far superior communication tool than teleconferencing. Y-12's videoconference

capability has blossomed into a high-tech enterprise that now operates out of two unclassified centers and one classified center daily.

Y-12's videoconferencing capabilities are saving travel dollars, offer face-to-face communication and visual data exchange and allow for more effective and clear communications by conference teams.

INDIRECT PROGRAM WORK SCOPE EXPANDS

Since Y-12 created the Indirect Program office to manage the \$250 million of indirect tasks that enable Y-12 to conduct business—administrative support, human resources and maintenance—almost \$28 million dollars in new work scope has been added. Although the changes the new scope brings Y-12 and its employees are worthwhile, they are not free.

For example, the Clean Sweep and Y-12 PrYde programs focus on making Y-12 a cleaner, safer environment for the employees and community. Many of the new indirect programs have become institutionalized and are going to be at Y-12 for years to come.

These programs also include specific items that are



The Indirect Program funds the Aggressive Recruiting Program, which helps Y-12 add new employees to its workforce.

management- or customer-driven initiatives. Work scope activities funded by the Indirect Program include the following:

- Enhanced Safety Program
- Enhanced Fire Program
- Indirect Portion of Infrastructure Reduction
- Aggressive Recruiting Program
- Alternate Financing
- Six Sigma Program
- Enhanced Records Management
- Waste Operations
- Clean Sweep/Y-12 PrYde

If not controlled, overhead or “indirect” tasks can rapidly inflate the cost of doing business.

Labor costs comprise 80% of the Indirect Program budget; therefore, cost reduc-

tion initiatives must focus on labor efficiencies. If we perform necessary indirect work with fewer people, we can reassign staff to perform direct-funded work (for example, moving workers from indirect tasks to a direct-funded construction project as escorts for uncleared workers).

Establishing approval criteria and targeted ceilings for compensated overtime will also reduce costs. Y-12 employees worked approximately 200,000 hours of compensated overtime in FY 2004.

Information technology is an area where efficiency opportunities exist and are being pursued, for example, the replacement of legacy data

systems with SAP modules. Y-12 currently spends about \$50 million on IT.

To reduce spending on indirect work scope, program staff use a rigorous “bottom up” budget process and an Earned Value Management System. A maturing EVMS combined with a prioritized, requirements-based budgeting process is key to lowering the indirect-funded budget.

EFFECTIVE ENTERPRISE PLANNING

Knowing what, when, where and who is needed to do work is a key element of effective cost management. Enterprise planning allows diverse enterprises like Y-12 to develop comprehensive resource-loaded schedules of future work. Such schedules identify what must be accomplished, when it must be completed, which skills are required and how many of each are needed. Using SAP, schedules can be integrated across all programs to produce a comprehensive plan of work.

Enterprise planning provides critical information for making effective staffing decisions, enabling a clear understanding of what must be

done when and how time is allocated to do the work. Enterprise planning also can save millions of dollars. The most significant and quickly achievable savings come from eliminating individual specialized software programs and implementing a standardized system to prevent duplicate data entry and reduce data-entry errors.

Comprehensive planning helps us work together to reach common goals and to be more effective in managing and executing work.

FACES OF Y-12
Nicole Waters
Technical Lead, Finance

Y-12's next generation must be goal oriented and loyal and want to contribute to our long-term success. Its members should be self-starters, able to see the “big picture.” They will need to understand Y-12's history, mission and vision for the future.

